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Report On Business®

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Economy Continues Steady Growth

Prices Up For Ninth Month

Production & New Orders Increase

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

June Report

The economy continued to expand in June, say the nation's purchasing managers in their latest **Report on Business.** Production remained strong and new orders expanded, although the rate of growth for both was less than in May. The speed of vendor deliveries once again slowed, mirroring the steady growth in production and the continuing shortages of steel, a fallout from the six-month-long U.S. Steel strike. Inventories were reported slightly higher, possibly spurred by a build-up in order to avoid growing shortages in steel, polystyrene, plastic resins and caustic soda. Employment continued to increase for the fourth consecutive month. For the tenth consecutive month, more purchasers reported price increases than decreases, reflecting the impact of higher prices for petroleum, petroleum-derived chemicals and imports.

The report was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee, and director of materials management, Pitney Bowes, Inc. Mr. Bretz said, "As expected, the second quarter ended with favorable growth. Although June's growth may have been aided by some inventory building where certain commodities were in short supply, the expansion of all indicators is most impressive. Additionally, the continued increase in new orders suggests a healthy beginning for the second half of 1987."

The **Purchasing Managers' Composite Index** registered 57.3% in June, a fractional decrease from 57.5% in May. This is the eleventh consecutive month in which this leading indicator has exceeded 50%. The first two quarters of 1987 have averaged 55.1%. "Based on past experience," Mr. Bretz said, "if this average were to continue for the last two quarters of 1987, it would be consistent with real GNP growth of about 3.4%." A reading above 50% indicates that the economy is generally in an expanding phase; below 50%, that the economy is generally declining. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

Employment increased in June for the fourth consecutive month, after registering a string of 29 consecutive months of decline. Nevertheless, many members indicated caution in increasing employment too quickly, preferring to utilize overtime and employ temporary help to bridge recent peaks in production.

Employment %	Higher	Same	Lower	Net Differ.
June	18	70	12	+ 6
May	17	72	11	+ 6
April	22	66	12	+10

Buying Policy

After expanding for four consecutive months, members reported shrinking their leadtimes for production materials in June. The number of members reporting leadtimes of 90 days or longer decreased to 19% from 25% in May. However, leadtimes for capital expenditures lengthened after three consecutive months of decrease. The number of members reporting leadtimes in the significant six-months-and-longer time frame increased to 56% in June from 52% in May. For the first time in many months, a number of members indicated they were planning to expand their planned capital expenditures for 1987. Leadtimes for maintenance, repair and operating (MRO) supplies were virtually unchanged in June.

Production Materials %	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
June	15	43	23	11	8
May	16	36	23	18	7
April	16	35	28	14	7
MRO Supplies %					
June	40	44	9	5	2
May	40	45	8	4	3
April	46	42	6	6	0
Capital Expenditures %					
June	9	9	10	16	56
May	13	7	11	17	52
April	11	5	13	17	54

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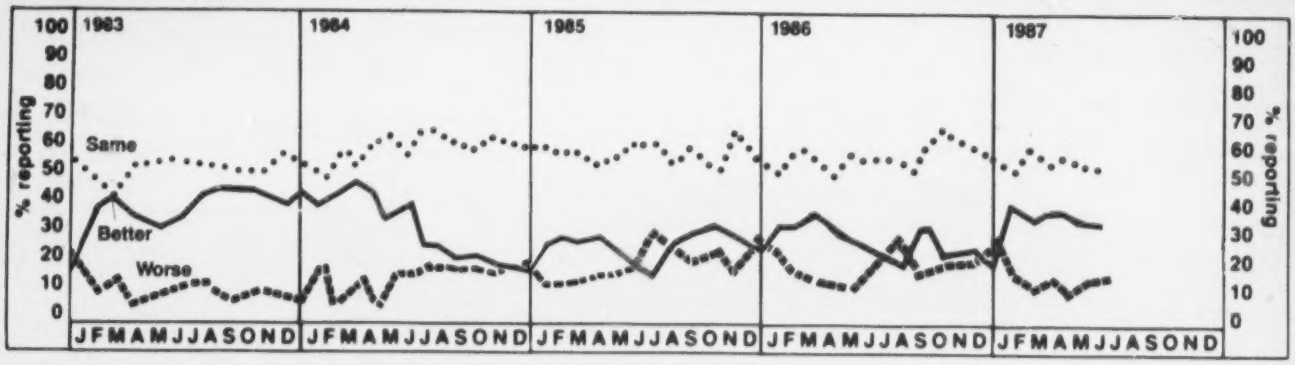
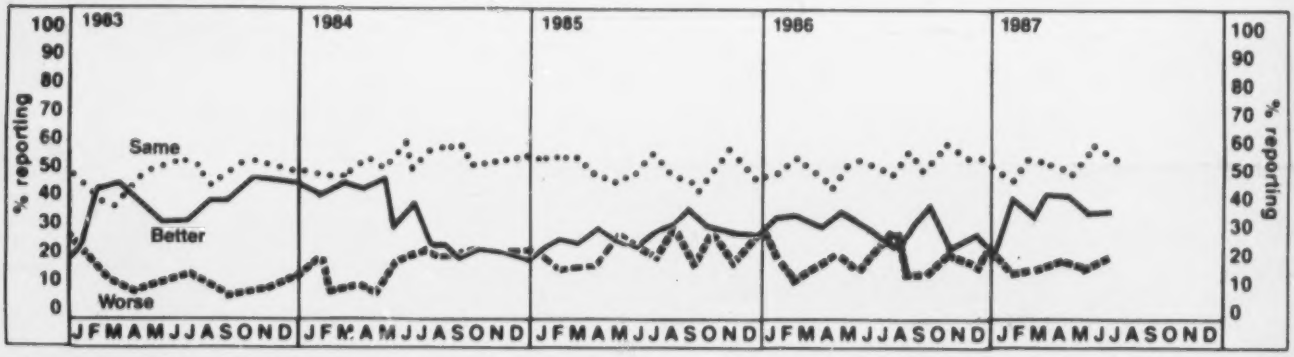
Production



Production continued to expand in June, for the sixth consecutive month. Even though the rate of growth was not as vigorous as in May and April, the ratio of those reporting better production (32%) over worse (13%) is a respectable 2½ to 1.

Production %	Better	Same	Worse	Net
June	32	55	13	+19
May	33	56	11	+22
April	35	57	8	+27

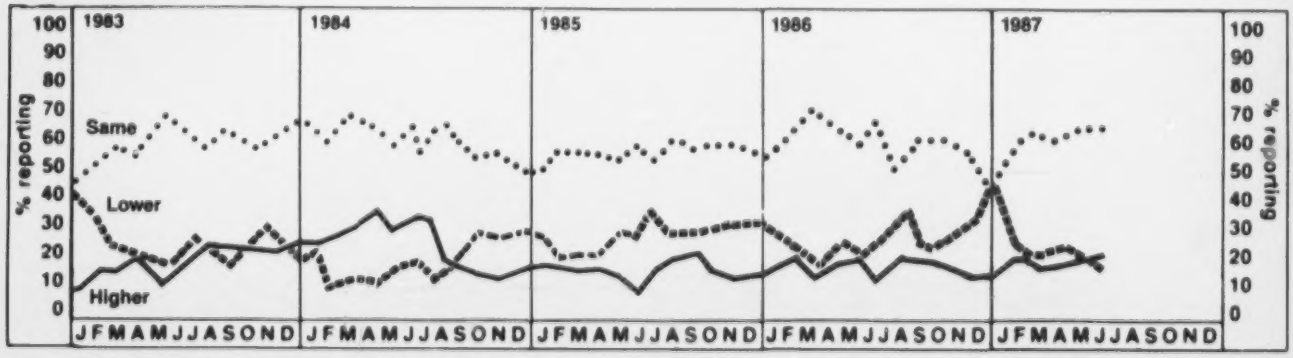
New Orders



New orders grew in June for the sixth consecutive month. Although the pace of growth was not as brisk as in the previous two months, it is sufficient to project a healthy beginning for the third quarter of 1987.

New Orders %	Better	Same	Worse	Net
June	35	50	15	+20
May	34	55	11	+23
April	40	48	12	+28

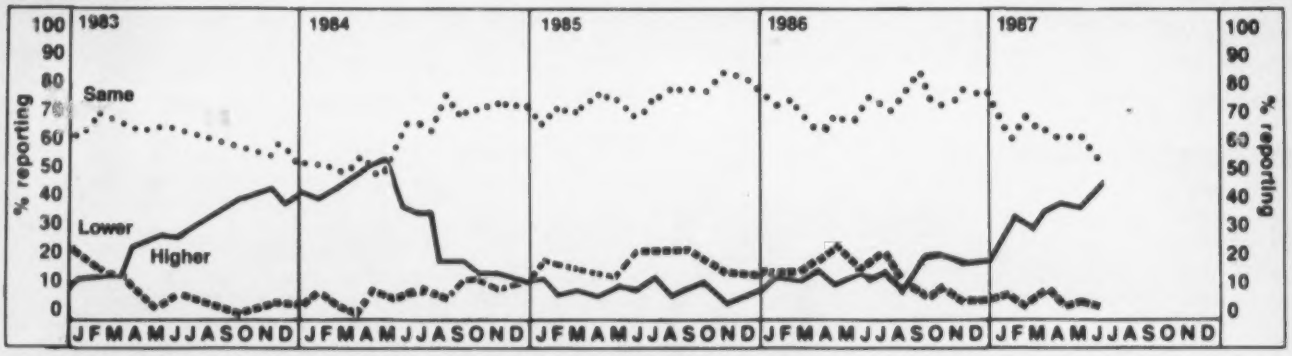
Inventories



Inventories grew slightly in June after marking time in May. A number of purchasers reported increasing their inventories somewhat for items in short supply in order to reduce the effects of slower deliveries for those commodities.

Inventories %	Higher	Same	Lower	Net
June	19	64	17	+ 2
May	18	64	18	0
April	17	62	21	- 4

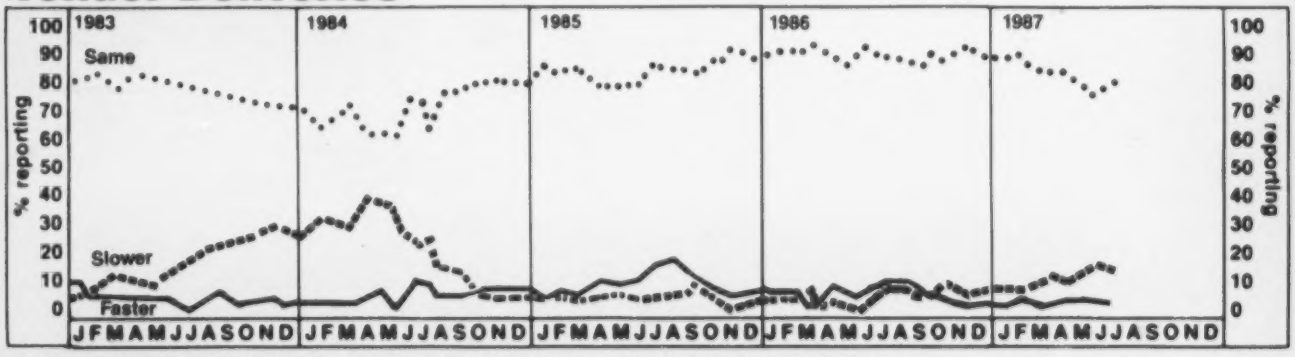
Prices



June marks the ninth consecutive month that more purchasers reported paying higher prices (48%) compared to lower (2%). While this is a reflection of a growing economy, it is also of growing concern to purchasers. The two primary reasons noted for many of the price increases were: the rising cost of imports brought about by the relatively low value of the dollar, and the significant price increases of petroleum-derived chemicals and plastic resins, resulting from rapidly rising oil prices.

Prices %	Higher	Same	Lower	Net
June	48	50	2	+46
May	38	59	3	+35
April	39	59	2	+37

Vendor Deliveries



The speed of vendor deliveries slowed again in June, the eighth consecutive month this has occured. Many members indicated the continuing shortages of steel products as a reason for slow deliveries. Others cited the shortages of polystyrene, other plastic resins, and caustic soda as contributing to delays in deliveries.

Vendor Deliveries %	Faster	Same	Slower	Net
June	5	80	15	−10
May	7	77	16	− 9
April	7	82	11	− 4

Specific Commodity Changes

The only item reported down in price was natural gas (third consecutive month). Steel was reported in short supply for the fourth consecutive month. Polystyrene was also reported in short supply (second consecutive month) as were plastic resins and caustic soda. Numerous items were reported up in price, particularly metals, petroleum-derived chemicals and resins, plastic and paper-related products. Corrugated shipping containers were reported up in price for the fourteenth time in the past fifteen months. Metals reported higher included steel (the ninth time in the last ten months), aluminum (fifth consecutive month), copper (fourth consecutive month, silver (second consecutive month), lead and zinc. Petroleum-derived chemicals and plastic-related commodities up in price were benzene (sixth consecutive month), vinyl acetate, acrylic acid, aromatic solvents, phenol (fourth consecutive month), styrene (fourth consecutive month), polystyrene (second consecutive month), polypropylene (second consecutive month), polyethylene, and plastic resins and products. Fuel oil increased in price for the fifth time in the past six months. Caustic soda was reported up in price for the seventh time in the past ten months. Newcomers to the list of higher-in-price items were chlorine, soda ash (a close relative of caustic soda) and carbon black.

UP in Price: Corrugated shipping containers, chlorine (used heavily in making bleached paper and paper board), caustic soda and soda ash (used heavily in petroleum refining and paper-making), aluminum, copper, steel (particularly steel plate and tubing), zinc, lead, silver, fuel oil, phenol (used in making plastic products), benzene (used as a chemical solvent and in gasoline), vinyl acetate (used in making vinyl coatings and products), styrene and polystyrene (used chiefly in making synthetic rubber, resins and plastics), plastic resins, materials and products, polyethylene (used in making plastic products), polypropylene (thermoplastic plastics or fibers), acrylic acid (used heavily in making varnishes and lacquers), aromatic solvents, miscellaneous chemicals, and carbon black (used heavily in making tires and industrial rubber products).

DOWN in Price: Natural gas.

In SHORT Supply: Steel (particularly galvanized, coated, cold-rolled sheets, stainless pipe and tubing), polystyrene, plastic resins and caustic soda.

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in five important categories of data: production, new orders, employment, inventories and vendor deliveries. These five components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the five above-mentioned components of the *Report on Business*, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the U.S. Department of Commerce, and is the only part of the report adjusted for seasonal variations.

Note: The next issue of the *Report on Business* will be available Aug. 3, 1987.

Commodity Reports

Wood Products

Prepared by the N.A.P.M. Wood Products Committee; chairman, S.G. Craven, Pope & Talbot, Inc., Portland, OR.

Due to a mild winter and low interest rates, most phases of the wood products industry have held strong for the past six months. The next six months should show a continued increase in activity in most areas, barring a significant rise in interest rates, which have already inched higher of late. However, most financial houses are predicting an easing of rates by the end of the year.

Prices should be steady-to-higher for most building materials. Supplies will be similar to the past six months, with some specialty items scarce and therefore higher-priced.

Availability of construction products, i.e., fir, hemlock, pine and plywood, should be good, with prices remaining steady. Plants could raise production another 5% which would effect the market; however, summer vacations typically influence some of this production. Therefore, look for continued availability with only a slight chance of price increases in these materials.

In the hardwood, veneer and furniture markets, availability and prices should remain steady with a few exceptions; both red oak and mahogany have been in short supply and therefore prices continue to rise.

The Canadian lumber tariff seems to have had little impact on the amount of lumber coming out of Canada. However, it is widely held that the tariff is being absorbed by the manufacturers (causing a slight increase in prices for U.S. buyers), which may spur the Canadians to pursue some foreign markets typically serviced by U.S. mills.

Nonferrous Metals

Prepared by the N.A.P.M. Nonferrous Metals Committee; chairman, George R.A. Milne, C.P.M., Delta Faucet Company, Indianapolis, IN

Copper

As anticipated, Comex copper prices rose approximately 5% during the first quarter of 1987, then stabilized through April. During the first three weeks of May, the market advanced another $.05 per pound near those year highs of $.69 per pound. This abrupt increase was the result of:

- Renewed speculative interest and spillover from dynamic gold and silver markets.
- A solid 5-6% consumption-volume increase led by brass and wiremills, assisted by the declining U.S. dollar.
- Sporadic production losses due to accidents, transportation difficulties, disruptions, and deferments, which have reduced consumer inventories over 15% and Comex stocks by 25%, with producer and merchant stocks sharply reduced.

The current supply/demand tightness is expected to continue through the second quarter, but should begin to loosen during the summer months due to the slowdown in industrial activity. Forecasted copper consumption growth of 1.5-2.0% should hold during the second half of 1987, but anticipated production increases scheduled for this period should restore a positive balance. As a consequence, expect copper tightness and prices to peak at the end of this quarter, with inventories gradually being restored and prices moderately receding during the second half. (Frederick C. Burke, Rea Magnet Wire Company, Fort Wayne, IN)

Zinc

Thus far, 1987 zinc prices have not sagged to the $.30 per pound low of 1986, but market conditions have developed which could boost prices toward the $.47 per pound levels of last fall. Following settlement of the Noranda labor strike, first quarter 1987 zinc prices fell to the $.38 to $.40 per pound level; however, sluggish demand from all but the galvanizing sector, and continuing production problems prevented producers from building inventories. Consequently, second quarter labor disputes again helped drive prices up, to $.44 per pound for May.

The June 1 announcement that USW members at Cominco rejected a tentative labor agreement and various planned maintenance shutdowns this summer are the major factors supporting tight (but not short) market conditions and higher prices nearby. Less significant factors, but worthy of consideration, are the impact of the pending labor contract expiration at Noranda's New Brunswick zinc-lead mine, and the fluctuating U.S. dollar. (Victoria P. Radick, National Steel Corporation, Pittsburgh, PA)

Cadmium

The cadmium metal market, which had been underpriced for some time, has again become very bullish. Prices have increased from the low-to-mid 80 with producer levels currently at $1.40 to $2.00 a pound, and very little available. Production problems at some zinc mines, of which cadmium is a by-product, and a strike at another mine are contributing to the current shortage and increase in prices. This shortage of metal is also exacerbated by larger-than-expected purchases of cadmium by some east European nations and by Japan, for use in their growing battery industry.

It is uncertain as to how long the current price levels will hold — historically the summer slowdown has an effect on demand and price; however, the present shortage may be longer-lasting. Therefore, the market will bear close watching over the next months. (Wilfred P. Brandes, Kraft Chemical Company, Melrose Park, IL)

Lead

The price of lead has risen vigorously, moving from $.26 per pound on April 9th to $.37 per pound on May 29th. This rise is due to production problems caused by strikes, maintenance shut downs, feed disruptions, politics, and the closure of the Buick smelter in the United States.

As a result, U.S. stocks have dropped 85,000 tons since May 1986, while LME inventories fell 51,000 metric tons, leaving April 1987 inventories at 31,500 tons in the United States and 13,400 tons on the LME. This is the lowest level inventories have been since 1979.

Secondary smelting capacity continues to diminish in the U.S. with the latest casualty being Chloride's Tampa smelter, which shut down in January because of environmental problems. The remaining secondary smelters appear to be running close to capacity. Scrap supplies remain tight, which has caused prices to rise and the smelters to scramble to obtain sufficient feed.

Material shortages will probably occur as early as August and continue through the fall battery industries' heavy demand period. Prices will remain in the mid to upper $.30 per-pound range, possibly even pushing into the $.40 per-pound range as demand exceeds supply. (T.A. Parker, Exide Corporation, Horsham, PA)